

**EXHIBIT B – CONSOLIDATED BALANCE SHEET**

## **Report of Independent Auditors**

### **To the shareholders and board of directors of Boston Chicken, Inc.:**

We have audited the accompanying consolidated balance sheet of Boston Chicken, Inc. and subsidiaries (the "Company") as of December 27, 1998. This consolidated balance sheet is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated balance sheet based on our audit. We did not audit the balance sheet of Einstein/Noah Bagel Corp. and subsidiaries ("ENBC"), which statement reflects total assets of \$375,142,000 constituting thirty-five percent of the related consolidated total assets. That balance sheet was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for ENBC, is based solely on the report of the other auditors.

We conducted our audit of the consolidated balance sheet in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the balance sheet is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the balance sheet. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall balance sheet presentation. We believe that our audit provides a reasonable basis for our opinion.

We were also engaged to audit the related consolidated statements of operations, changes in stockholders' equity and cash flows for the year then ended, which are not presented herein. However, we were not appointed auditors for the Company until October 1998 and sufficient evidence supporting certain of the Company's financial transactions, including its allowance for loan losses at December 28, 1997, its vendor payments and commitments, and its accounting for certain lease agreements is no longer available. In addition, we were not able to satisfy ourselves regarding these items by means of other auditing procedures. These transactions enter materiality into the determination of results of operations and cash flows for the year ended December 27, 1998.

Because of the matters discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the consolidated statements of operations, changes in stockholders' equity, and cash flows for the fiscal year ended December 27, 1998.

In our opinion, based on our audit and the report of the other auditors, the consolidated balance sheet referred to above presents fairly, in all material respects, the financial position of the Company as of December 27, 1998, in conformity with generally accepted accounting principles.

The accompanying consolidated balance sheet has been prepared assuming the Company will continue as a going concern. As discussed in Notes 1 and 2 to the balance sheet, Boston Chicken Inc. and its Boston Market-related subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code and are currently operating their business as debtors-in-possession. The Company has an accumulated net capital deficiency of \$1,391,905,000 and has funds available under its debtor-in-possession credit facility, as well as a waiver of covenant violation, only through February 18, 2000, unless further amended by the lenders to the credit facility. These factors raise substantial doubt about Boston Chicken Inc.'s ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1 and Note 12. The consolidated balance sheet does not include any adjustments that might result from the outcome of these uncertainties.

PRICEWATERHOUSECOOPERS LLP

B-1

Denver, Colorado

August 3, 1999, except for Note 12, as to which the date is December 20, 1999

**BOSTON CHICKEN, INC. AND SUBSIDIARIES**  
**(Debtor-in-Possession)**

**CONSOLIDATED BALANCE SHEET**  
**AS OF DECEMBER 27, 1998**  
(in thousands, except share data)

**ASSETS**

Current assets:

Cash and cash equivalents .....	\$ 11,662
Accounts receivable, net.....	2,453
Inventories .....	23,333
Prepaid expenses and other current assets .....	<u>5,231</u>
Total current assets .....	42,679
Property and equipment, net .....	511,064
Notes receivable, net .....	8,035
Intangible assets, net .....	490,909
Other assets, net .....	<u>5,953</u>
Total assets.....	<u>\$ 1,058,640</u>

**LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)**

Current liabilities:

Accounts payable .....	\$ 26,948
Accrued expenses and other current liabilities .....	63,367
Deferred revenue .....	2,881
Collateralized debt obligations and notes payable .....	282,336
Debtor-in-Possession debt. ....	<u>39,690</u>
Total current liabilities .....	415,222
Other noncurrent liabilities .....	6,950
Deferred revenue .....	39,290
Long-term debt and notes payable - Boston Chicken, Inc. ....	558
Long-term debt and notes payable - Einstein/Noah Bagel Corp. ....	148,625
Liabilities subject to compromise (see note 8)	
Debt obligations .....	637,448
Other.....	68,074
Minority interests .....	109,039
Commitments and contingencies (see note 10)	
Redeemable preferred stock (see notes 3 and 7) .....	84,328
Stockholders' equity:	
Preferred stock - \$.01 par value; 20,000,000 shares authorized; no shares issued and outstanding.....	—
Common stock - \$.01 par value; 480,000,000 shares authorized; 77,130,853 shares issued and outstanding.....	771
Additional paid-in capital .....	940,240
Accumulated deficit .....	<u>(1,391,905)</u>
Total stockholders' deficit .....	<u>(450,894)</u>
Total liabilities and stockholders' equity (deficit) .....	<u>\$ 1,058,640</u>

The accompanying notes to the consolidated balance sheet are an integral part of this statement.

## **BOSTON CHICKEN, INC. AND SUBSIDIARIES**

### **(Debtor-in-Possession)**

#### **NOTES TO CONSOLIDATED BALANCE SHEET**

##### **1. Description of Business**

Boston Chicken, Inc. ("BCI") operates and franchises food service restaurants under the Boston Market brand name which specialize in fresh, convenient meal solutions featuring home-style entrees, sandwiches, freshly prepared vegetables, salads, and desserts. BCI's 51%-owned subsidiary, Einstein/Noah Bagel Corp. ("ENBC"), operates specialty retail stores that feature fresh-baked bagels, proprietary cream cheeses, coffees and teas, and soups, salads and sandwiches. Unless otherwise indicated, BCI and its subsidiaries (excluding ENBC), are hereinafter referred to collectively as the "Company."

On October 5, 1998, BCI and its Boston Market-related subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the Federal Bankruptcy Code in the U.S. Bankruptcy Court for the District of Arizona in Phoenix. The Company is currently operating its business as a debtor-in-possession, subject to the jurisdiction of the Bankruptcy Court. As a debtor-in-possession, the Company is authorized to operate its business, but may not engage in transactions outside of the normal course of business without approval, after notice and hearing, of the Bankruptcy Court. The Chapter 11 cases are being jointly administered for procedural purposes by the Bankruptcy Court under Case No. 98-12547, Caption In re: BCE West, L.P. All court filings in connection with the Company's bankruptcy can be accessed on the Internet at <http://ecf.azb.uscourts.gov>. ENBC is not included in the Chapter 11 filings.

The Bankruptcy Court has approved the employment of an investment advisor, Lazard Freres & Co. LLC ("Lazard"), to assist the Company in formulating alternative plans of reorganization in connection with the Company's Chapter 11 reorganization. Lazard has also advised and assisted the Company in preparing the documentation necessary to permit the Company to explore strategic alternatives, including potential investment proposals from strategic or financial investors or buyers. See Note 12. The Company has publicly disclosed that holders of the Company's capital stock will retain no value under a plan of reorganization or otherwise, and the Company anticipates that holders of its convertible subordinated debt securities also will not retain any value under a plan of reorganization. The Company's equity and debt securities will be cancelled upon plan confirmation. Also, it is expected that loans from collateralized lenders will be impaired in connection with a plan of reorganization.

As part of the Chapter 11 reorganization process, the Company has attempted to notify all known or potential creditors of the Chapter 11 filings for the purpose of identifying all pre-petition claims against the Company. Creditors whose claims arose prior to the petition date had until March 31, 1999 ("Bar Date") to file claims or be barred from asserting claims in the future. Claims arising from rejection of executory contracts by the Company, and claims related to certain other items were permitted to be filed by other dates set by the Bankruptcy Court. Differences between amounts shown by the debtors and claims filed by creditors will either be amicably resolved or adjudicated. The ultimate amount of, and settlement terms for, such liabilities are subject to the plan of reorganization when confirmed, and accordingly are not presently determinable.

Also on October 5, 1998, the Company notified BC Northwest, L.P. and Boston West, L.L.C., two of its three remaining area developers, that the Company would not provide them any additional funding under their loans from the Company. On October 11, 1998, BC Northwest, L.P. closed all of its 56 Boston Market restaurant locations and subsequently filed for Chapter 7 liquidation under the Federal Bankruptcy Code. Boston West, L.L.C. filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code on November 9, 1998 and closed 11 restaurants in the fourth quarter of 1998. At the end of 1998, Boston West, L.L.C. operated 87 Boston Market restaurants and expects to file a plan of reorganization in 1999.

At the end of 1998, the Company had acquired a controlling interest in 14 of its 17 area developers, changing the focus of the Boston Market restaurant system from a franchise system to a predominantly company controlled system, as has ENBC, which acquired a majority equity interest in all of its area developers in the fourth quarter of

1997. Prior to these acquisitions, the Company and ENBC generated revenues primarily as a lender, franchisor and service provider to the financed area developers.

At the end of 1998, there were 898 Boston Market restaurants systemwide in the United States, consisting of 11 franchise restaurants, 128 restaurants owned by area developers and 759 restaurants owned by the Company. A majority-owned subsidiary of ENBC operated all 546 ENBC stores in the United States at the end of 1998.

## **2. Summary of Significant Accounting Policies**

*Basis of Presentation.* The accompanying consolidated balance sheet includes the accounts of BCI and its majority-owned subsidiaries (including ENBC). All material intercompany transactions and balances have been eliminated in consolidation.

The balance sheet has been prepared on a going concern basis pursuant to Statement of Position 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", which contemplates continuity of operations, realization of assets and liquidation of liabilities in the ordinary course of business. As a result of the Company's Chapter 11 filings, however, such matters are subject to significant uncertainty. Continuing on a going concern basis is dependent upon, among other things, the Company's formulation of an acceptable plan of reorganization, the success of future business operations, the continued availability of funds under debtor-in-possession financing, and the generation of sufficient cash from operations and financing sources to meet the Company's obligations. The accompanying consolidated balance sheet does not reflect (a) the realizable value of assets on a liquidation basis or their availability to satisfy liabilities, (b) the effect of any changes to the Company's capital structure or in the Company's business operations as the result of an approved plan of reorganization, or (c) adjustments to the carrying value of asset or liability amounts that may be necessary as the result of actions by the Bankruptcy Court.

The preparation of the balance sheet in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

*Fiscal Year.* BCI's fiscal year is the 52/53-week period ending on the last Sunday in December.

*Cash and Cash Equivalents.* BCI considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

*Inventories.* Inventories are stated at the lower of cost (first-in, first-out) or market and consist of food, paper and plastic products, and supplies.

*Property and Equipment.* Property and equipment is stated at cost, less accumulated depreciation and amortization, except for impaired property and equipment for which the carrying amount is reduced to estimated fair market value which becomes the new cost basis. Depreciation and amortization of property and equipment and buildings has been calculated using the straight-line method over the assets' estimated useful lives. Depreciation and amortization for leasehold improvements has been calculated over the lesser of the leaseholds' useful lives or their lease term, including option periods where exercise is probable.

Property and equipment additions include acquisitions of buildings and equipment, costs incurred in the development and construction of new restaurants, and major improvements to existing restaurants. Expenditures for maintenance and repairs are charged to expense as incurred. Pre-opening costs incurred by ENBC, are capitalized until the stores become operational and are then amortized over a one-year period. Beginning in 1999, direct costs incurred in connection with opening new restaurants will be expensed as incurred in accordance with AICPA Statement of Position 98-5, "Reporting on the Costs of Start-up Activities" ("SOP 98-5"). The Company does not expect the adoption of SOP 98-5 to have a material impact on its results of operations in 1999.

*Intangible Assets.* The Company's intangible assets are amortized on a straight-line basis over lives ranging from 3 to 20 years and primarily represent goodwill, franchise rights, trademarks, and financing cost. ENBC's goodwill, trademarks, and recipes are amortized over 35, 30, and 10 years, respectively, through 1998. Effective with fiscal year 1999, ENBC has prospectively changed its goodwill and trademark lives from 35 and 30 years, respectively, to 20 years.

*Long-Lived Assets.* The Company and ENBC evaluate whether events and circumstances have occurred that would indicate if it would be appropriate to revise the remaining useful life or impairment of remaining balances of

long-lived assets, including goodwill and other intangible assets. Such events and circumstances include, but are not limited to, a change in business strategy or a change in current and long-term projected operating performance. When factors indicate that the carrying amount of an asset may not be recoverable, the Company and ENBC estimate the future cash flows expected to result from the use and eventual disposition of the asset. Generally, assets are assessed utilizing each restaurant's expected future cash flow. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset (including any asset-specific goodwill), an impairment loss equal to the excess of the carrying amount over the estimated fair value of the asset will be recognized. Estimated fair market value is generally determined based upon discounted estimated future cash flows. Considerable management judgement is necessary to estimate discounted future cash flows. Accordingly, actual results could vary significantly from estimates.

*Liabilities Subject to Compromise.* Under the Bankruptcy Code, certain pre-petition claims against the Company are stayed while the Company continues business operations as a debtor-in-possession. Post-petition claims may arise as a result of the Company rejecting executory contracts, including leases, and the Court allowing claims for contingencies or other disputed amounts. The Bankruptcy Court approved the Company's payment of pre-petition employee compensation and benefits, and the timely payment of substantially all pre-petition trade payables incurred in the ordinary course of business. See Note 8.

*Deferred Revenue.* Up-front cash payments received from certain suppliers are deferred and recognized over the term of the contracts based upon purchased volumes. If purchase volume shortfalls occur, the Company is required to make retroactive rate adjustments on purchases or may be required to provide a cash settlement for the shortfalls which are reflected as either accrued expenses and other current liabilities or as liabilities subject to compromise in the accompanying balance sheet.

*Revenue Recognition.* Revenue from Company restaurants and from ENBC stores is recognized in the period during which related food and beverage products are sold.

Royalties are recognized in the same period that related franchise restaurant revenue is generated. Revenue derived from initial franchise fees and area development fees is recognized when the franchised restaurants open. Interest, real estate services, and software maintenance fees are recognized as earned. Lease income is recognized over the life of the lease on a straight-line basis. Software license income is recognized as the software is placed in service. If an area developer generates insufficient cash on a cumulative basis from restaurant operations, capital contributions and other sources (excluding borrowings from the Company) to pay royalties, interest and franchise fees when due, the Company will not recognize such fees. The Company continues to charge the area developer royalties, franchise and related fees, and interest, but no longer recognizes these payments as revenue.

*Issuances of Subsidiaries' Stock.* Changes in the Company's proportionate interest in the net assets of its subsidiaries that result from issuances of the subsidiaries' stock are recognized in operations as gains or losses in the period during which such issuances occur.

*Advertising Costs.* Advertising costs are expensed in the period incurred.

The Company administers and consolidates a National Advertising Fund (the "Fund") and Local Advertising Funds ("LAFs") to which all restaurants contribute 2% of net revenue and a minimum of 4% of net revenue, respectively. Collected amounts are spent primarily on developing marketing and advertising materials for use systemwide by the Fund and for restaurants in particular markets by the LAFs.

*Employee Stock Options.* The Company and ENBC account for their employee stock options in accordance with the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees".

*Fair Value of Financial Instruments.* The carrying amounts of accounts receivable, notes receivable, accounts payable and accrued liabilities approximate fair value. The estimated fair value of the Company's senior collateralized debt obligations is \$141.8 million in 1998. The estimated fair value of the Company's subordinated debt obligations (including the convertible subordinated debt and liquid yield option notes) is \$29.1 million in 1998. The estimated fair value of ENBC's revolving credit facility and convertible subordinated debt are \$5.6 million and \$58.8 million, respectively, at December 27, 1998.

## **Acquisitions**

### *Boston Market Area Developers*

The Company acquired a majority ownership interest in 11 area developers in 1998, 2 area developers in 1997 and 1 area developer in 1996. The operating results of these area developers are included in the Company's results of operations from the date of each respective acquisition.

In March 1998, the Company converted its \$119.2 million of gross loans (\$1.8 million of net loans) to its area developer BC Great Lakes, L.L.C. into a majority ownership interest. On July 15, 1998, the Company converted a total of \$564.2 million of convertible and non-convertible loans (\$9.5 million of net loans) to ten area developers into majority ownership interests. On the same date, the Company acquired the preferred equity interests held by BC Equity Funding, L.L.C. ("BCEF") and Market Partners, L.L.C. ("Market Partners") in the 10 area developers, as well as an additional area developer, and BCEF and Market Partners merged into a wholly-owned subsidiary of the Company.

The Company's conversion of its 11 area developer loans added 640 Boston Market restaurants to the Company's restaurant base. The following sets forth the amount of the gross loans converted (in thousands) and the percentage of common equity interests in each area developer acquired by the Company:

Area Developer	Loan Converted	Common Equity Interest Acquired
P&L Food Services, L.L.C. ....	\$52,277	86%
BC Boston, L.P. ....	51,585	91%
BCE West, L.P. ....	47,540	83%
BC GoldenGate, L.L.C. ....	57,759	96%
Finest Foodservice, L.L.C. ....	87,936	98%
BC Superior, L.L.C. ....	56,893	74%
BC Heartland, L.L.C. ....	7,370	97%
B.C.B.M. Southwest, L.P. ....	60,002	95%
BC Tri-States, L.L.C. ....	39,636	75%
R&A Food Services, L.P. ....	103,154	90%
BC Great Lakes, L.L.C. ....	119,209	85%

The 11 area developer acquisitions were accounted for as purchases, and, accordingly, the purchase prices were allocated to identifiable assets and liabilities based upon their estimated fair value at the date of acquisition. The Company assumed approximately \$51.5 million in liabilities owed to third parties in connection with the acquisitions. The purchase price allocation (including the BCEF and Market Partners preferred equity interests) resulted in goodwill of approximately \$71.8 million.

#### *Preferred Equity Interests in Boston Market Area Developers*

In exchange for the BCEF and Market Partners preferred equity interests in ten of the area developers referenced above and one additional area developer, the Company, in July 1998, paid to the members of BCEF an aggregate of \$4.5 million in cash and issued to the members of BCEF an aggregate of 1,553,991 shares of the Company's common stock and 1,204,593 shares of the Company's 10% Series A exchangeable preferred stock ("Preferred Stock") with an aggregate liquidation preference of \$60.2 million, initially redeemable at 50% of the face amount increasing over time to 110% of the face amount. The Company paid to the members of Market Partners an aggregate of \$5.5 million in cash and issued to the members of Market Partners an aggregate of



1,946,000 shares of the Company's common stock and 1,331,400 shares of Preferred Stock with an aggregate liquidation preference of \$66.6 million, initially redeemable at 50% of the face amount increasing over time to 110% of the face amount.

BCEF and Market Partners originally invested an aggregate of approximately \$131.7 million in 11 of the Company's area developers. If the Company had not acquired the BCEF and Market Partners preferred equity interests in ten of these area developers at the time the Company converted its loans into a majority equity interest, the ten area developers would have been required under the terms of the preferred equity instruments to redeem the preferred interests for cash, including accrued and unpaid dividends and redemption premiums, which totaled approximately \$169.7 million as of the transaction date. See Note 7 for a description of the terms of the preferred equity instruments.

The Company agreed to register the common stock and Preferred Stock issued to the members of BCEF and Market Partners by September 13, 1998 and to use reasonable best efforts to cause a registration statement to be declared effective by December 12, 1998. The Company did not register the shares by the required deadline and the terms of the registration rights agreement imposes an aggregate \$2.5 million penalty, currently due and payable by the Company, to certain holders of the common stock and Preferred Stock, subject to the terms of distributions to unsecured creditors, if any, as part of a plan of reorganization.

#### **4. Area Developer and Other Financing**

##### *Area Developer Financing*

The Company historically offered convertible and non-convertible collateralized debt financing to Boston Market area developers to partially finance restaurant development and working capital needs. Interest is set at the applicable reference rate of Bank of America National Trust and Savings Association as established from time to time (7.75% at December 27, 1998 and an average rate of 8.36% for 1998) plus 1%, and is payable each four-week period. The loan is collateralized by a pledge of substantially all of the assets of the area developer and generally by a pledge of the equity interests of the owners of the developer. In 1997, 12 of these area developers waived the loan conversion moratorium period provided under the loan agreements and, in 1998, the Company converted 11 of these area developer loans into majority equity interests in the area developers. Since inception, the Company has acquired a controlling interest in 14 of its 17 area developers. On October 5, 1998, the Company notified BC Northwest, L.P. and Boston West, L.L.C. that the Company would not provide them any additional funding under their loans from the Company. See Note 1. The Company continues to provide limited funding to one area developer, Platinum Rotisserie, L.L.C.

At the end of 1998, management reviewed the collectability of its total \$221.2 million area developer loans outstanding, use of the loan proceeds and the value of the collateral underlying the loans, and reserved for the entire amount by establishing an impairment allowance. Also, only three area developers comprised the outstanding loans, which individually accounted for approximately 42%, 32% and 26% of the notes receivable outstanding. The average loan balances for the remaining three area developers in 1998 was \$ 208.1 million.

##### *Other Financing*

Progressive Food Concepts, Inc. ("PFCI"), a wholly-owned subsidiary of BCI, has provided Harry's Farmers Market, Inc. ("Harry's") with two credit facilities (the "Loans"): (i) a \$12.0 million refinancing loan, all of which was outstanding at the end of 1998 (the "Refinancing Loan"), and the proceeds of which were used by Harry's to repay other indebtedness; and (ii) a \$5.5 million development loan, \$3.5 million of which was outstanding at the end of 1998 (the "Development Loan"). The Loans bear interest at 5% per annum until January 31, 2002, and thereafter at a per annum rate equal to the rate designated by Bank of America National Trust and Savings Association as its reference rate plus 1%. Interest only is payable quarterly on the Loans until January 31, 2002, after which date the Loans become an amortized term loan payable in 20 equal quarterly installments of principal and interest unless otherwise exchanged. On December 2, 1999, Harry's paid \$4 million to PFCI to extinguish the notes and all other obligations under the Loans.

#### **5. Debt**

BCI's debt as of December 27, 1998 is as follows (in thousands of dollars):

BCI Senior Revolving Credit Facility .....	\$ 53,823
Debtor-in-Possession Credit Facility .....	39,690
ENBC Senior Revolving Credit Facility .....	5,625
ENBC Senior Term Loan Facility .....	24,000
4½% Convertible Subordinated Debentures, due February 1, 2004, interest payable semi-annually, convertible at \$27.969 per share of Company common stock.....	129,520
7¾% Convertible Subordinated Debentures, due May 1, 2004, interest payable semi-annually, convertible at \$26.70 per share of Company common stock .....	287,500
Liquid Yield Option Notes (LYONs), due June 1, 2015, zero coupon, issued at \$208.29 per \$1,000 principal, 8% yield, convertible at 8.532 shares of Company common stock.....	209,704
7¼% ENBC Convertible Subordinated Debentures, due June 1, 2004, interest payable semi-annually, convertible at \$21.25 per share of ENBC common stock .....	125,000
Collateralized 1996 Master Lease Obligation .....	166,119
Collateralized 1995 Master Lease Obligation .....	55,454
Other Debt Obligations.....	12,222
	<hr/>
Total Debt Obligations .....	<u>\$1,108,657</u>

#### *Company Revolving Facility*

##### Senior Bank Credit Agreements

On July 15, 1998, the Company amended its senior revolving credit facility, which had \$48.0 million outstanding (as amended, the “Senior Credit Facility”), and amended its 1996 master lease facility (as amended, the “1996 Master Lease”). The Senior Credit Facility provided the Company an additional revolving credit facility of \$39.3 million, consisting of a \$4.3 million revolving loan and a \$35.0 million revolving liquidity facility. Proceeds of the \$4.3 million loan were used to satisfy required payments on the Company’s 1995 master lease facility (the “1995 Master Lease”). In connection with the Senior Credit Facility, the Company executed a written guarantee of a total of \$4.9 million principal amount of obligations, plus interest on, and expenses related to, these obligations,

owed by certain employees and former employees of the Company to the Company's senior lenders. Borrowings under the Senior Credit Facility bear interest at the agent's base rate, plus an applicable margin (together, 9.25% at December 27, 1998). The weighted average interest rate on the revolving liquidity facility portion and the remaining balance of the Senior Credit Facility were 9.69% and 9.12%, respectively, for fiscal year 1998. The Senior Credit Facility also provides for a commitment fee of 0.5% per annum of the average daily unused portion of the Senior Credit Facility. All borrowings outstanding under the Senior Credit Facility became due on October 17, 1998.

Under the terms of the 1996 Master Lease, the Company purchased all of the assets leased under the facility and agreed to pay the \$166.1 million outstanding balance ("1996 Master Lease Secured Debt") due under the facility on October 17, 1998. Obligations under the 1996 Master Lease Secured Debt bear interest at a rate equal to the prime lending rate plus an applicable margin (together, 9.25% at December 27, 1998). The weighted average interest rate on the 1996 Master Lease Secured Debt was 9.82% for fiscal year 1998.

On November 4, 1998, the Bankruptcy Court approved the payment of interest on amounts outstanding under the Senior Credit Facility, the 1996 Master Lease and the 1995 Master Lease. The Company utilized a portion of its debtor-in-possession financing facility to pay the liquidity facility portion of the outstanding balance due under the Senior Credit Facility. All principal payments under the Senior Credit Facility, the 1996 Master Lease and the 1995 Master Lease were suspended pending approval of a final plan of reorganization. The lenders under the 1996 Master Lease have agreed to defer interest payments on the 1996 Master Lease Secured Debt from March 1999 through April 2000. The lenders under the 1995 Master Lease agreed to defer interest payments on the 1995 Master Lease secured debt from March 1999 through September 1999, although the Company has not made any interest payments on the 1995 Master Lease secured debt since March 1999.

#### Debtor-in-Possession Financing

On October 29, 1998, the Bankruptcy Court approved the Company's debtor-in-possession financing agreement, providing for up to \$70.0 million (the "DIP Facility"). The Company utilized \$35.0 million of the DIP Facility to pay the liquidity facility portion of the outstanding balance due under the Company's Senior Credit Facility. The Company is required to remit proceeds of certain asset sales to the banks to repay this \$35.0 million advance. The Company is utilizing the additional \$35.0 million of revolving funds available under the DIP Facility to pay the Company's operating expenses, including employee salaries and benefits, payments to vendors and certain professionals approved by the Bankruptcy Court, and interest payments through February 1, 1999 on the Senior Credit Facility, the 1996 Master Lease and the 1995 Master Lease. Under the terms of the DIP Facility, the revolving funds are available to the Company until the earlier of April 4, 2000, the date on which the DIP Facility expires, or the Company's emergence from Chapter 11. Draws made under the DIP Facility bear interest at a rate equal to the prime lending rate plus an applicable margin (together, 9.25% at December 27, 1998). The weighted average interest rate on the DIP Facility was 9.4% for fiscal year 1998. The Company is required to pay an unused line fee of 0.375%, and a letter of credit fee of 2.0%. The DIP Facility is collateralized by substantially all of the assets of the Company and its subsidiaries. The DIP Facility contains restrictive covenants including, among other things, requiring the maintenance of minimum systemwide earnings before interest, taxes, depreciation, amortization and payments under the 1995 Master Lease, as defined (EBITDAL), limiting additional indebtedness, liens, contingent obligations and capital expenditures, limiting sales of assets by the Company and prohibiting dividend payments.

During 1999, the DIP Facility EBITDAL covenant has been waived by the lenders. The current waiver extends until February 18, 2000. Absent additional waivers, management does not believe that the EBITDAL covenant will be met. The lenders have been unwilling to revise the EBITDAL covenant. In addition, the lenders have established an availability reserve (as defined) that limits the amount available under the revolver DIP Facility. Subject to lender approval, the availability reserve can be adjusted to allow access to the entire \$35.0 million revolver DIP Facility. The current availability reserve allows the Company liquidity through February 18, 2000.

There can be no assurance that the Company will be able to comply with the covenants related to the DIP Facility or that there will be borrowing availability under the DIP Facility at all times when necessary. If the Company is unable to comply with the DIP Facility covenants, upon action of the requisite number of DIP Facility lenders, all outstanding principal and interest under the DIP Facility could be accelerated and become immediately due and payable.

#### *ENBC Revolving Facility and Term Loan*

ENBC has a collateralized credit facility, consisting of a term loan facility (originally in the amount of \$30.0 million) and a \$25.0 million revolving bank credit facility, providing for borrowings through October 2000. Borrowings under the credit facility may be either floating rate loans with interest at the lenders' reference rate (the "Reference Rate") plus applicable margin, or eurodollar rate loans with interest at the eurodollar rate plus applicable margin. In addition, a commitment fee of .50% of the average daily unused portion of the loan is required. The credit facility contains covenants that, among other things, restrict other borrowings, prohibit cash dividends and require maintaining certain minimum average weekly net sales levels and to comply with ratios of system cash flow to senior indebtedness and pro forma fixed charges. The credit facility is collateralized by substantially all of ENBC's assets. At the end of 1998, \$24.0 million was outstanding under the term loan facility, bearing an interest rate of 7.75%. The weighted average interest rate on the credit facility was 8.36% for fiscal year 1998. The term loan facility requires principal payments of \$1.5 million on March 1, June 1, September 1 and December 1 of each year, continuing through October 2000, at which time the outstanding balance is due. At the end of 1998, ENBC had \$25.0 million available under its revolving credit facility, of which \$5.6 million was outstanding.

#### *Subordinated Debt*

The convertible subordinated debentures contain provisions which allow the Company and ENBC to redeem the debentures at the following percentage of the original principal amounts: the Company's 4½% debentures are redeemable initially at 103.15% and at declining prices thereafter; the Company's 7¾% debentures are redeemable commencing May 1, 2000, initially at 104.43% and at declining prices thereafter; the Company's Liquid Yield Option Notes ("LYONs") are redeemable beginning June 1, 2000 at the original issue price plus original issue discount through the redemption date; and ENBC's 7¼% debentures are redeemable commencing June 1, 2000, initially at 104.14% and at declining prices thereafter. The Company is obligated to purchase the LYONs at the option of the holder as of June 1, 2000, June 1, 2005, and June 1, 2010, for a purchase price per LYON of \$308.32, \$456.39, and \$675.57, respectively. Subsequent to year end 1998, a face amount of \$130,901,000 LYONs were converted into 1,116,852 shares of common stock. In addition, the Company and ENBC are required, as of 40 business days after the occurrence of a Change in Control (as defined in the respective indentures) to purchase all or any part of their respective debentures at the option of the debenture holder.

While in Chapter 11, the Company has not, and does not expect to, pay the principal or interest obligations of its subordinated debt. The Company anticipates that the holders of its convertible subordinated debt will not retain any value under a plan of reorganization. The Company's debt securities will be canceled upon plan confirmation.

In November 1999, ENBC announced it had engaged Donaldson, Lufkin & Jenrette as its financial adviser to assist ENBC in analyzing and evaluating possible transactions to restructure its balance sheet.

#### *1995 Master Lease*

The 1995 Master Lease Facility covers various store equipment and is reflected as a capital lease in the accompanying financial statements. Initial balloon payments under the facility were due on October 17, 1998. Obligations under the 1995 Master Lease Facility bear interest at a rate equal to LIBOR plus an applicable margin (together, 8.82% at December 27, 1998). The weighted average interest rate on the 1995 Master Lease Collateralized Facility was 9.32% for fiscal year 1998. All principal payments have been suspended during the pendency of the Company's Chapter 11 proceedings.

### **6. Income Taxes**

At the end of 1998, the Company had remaining operating loss carryforwards available to reduce future taxable income of approximately \$124.0 million that begin to expire in 2013. At the end of 1998, ENBC had remaining operating loss carryforwards available to reduce future taxable income of approximately \$63.9 million that begin to expire in 2010. ENBC files a separate tax return from the Company. BCI and ENBC had net deferred tax assets of approximately \$425.0 million and \$88.0 million, respectively, at the end of 1998, which amounts were fully offset by valuation allowances due to uncertainty regarding realization of the related tax benefits. The net deferred tax assets are comprised primarily of investments in partnerships, net operating loss carryforwards and basis differences in notes receivable and property and equipment, offset by the basis difference in the Company's investment in ENBC.

### **7. Stockholders' Equity**

#### *Preferred Stock*

In connection with the acquisition of the preferred equity interests in 11 area developers as discussed in Note 3, the Company issued 2,535,993 shares of 10% Series A Exchangeable Preferred Stock. Commencing in December 1998, the annual dividend rate on the Preferred Stock increased to 11% and will further increase by 0.5% for each 90-day period thereafter, up to a maximum rate of 12%. At the option of the Company, the quarterly dividends may be paid in cash or additional shares of Preferred Stock for the first twelve dividend payments. Commencing with the thirteenth dividend payment, the annual dividend rate will permanently increase by 25 basis points per quarter for each dividend period in which dividends are not paid. Prior to filing for reorganization under Chapter 11, the Company had recorded \$2.8 million of accrued Preferred Stock dividends. As a result of its Chapter 11 filing, the Company will not pay any Preferred Stock dividends and, consequently, is not accruing any post-bankruptcy petition dividends. The Company considers these obligations to be liabilities subject to compromise and, as a result, will resolve these issues as part of a final plan of reorganization approved by the Bankruptcy Court. The Company has publicly disclosed that the holders of its Preferred Stock will retain no value under a plan of reorganization. The Company's Preferred Stock will be canceled upon plan confirmation.

The holders of the Preferred Stock do not have any voting rights, except as provided by Delaware law. In the event of dissolution, liquidation or winding up of the Company, the Preferred Stock ranks senior to the common stock. The Company is required to redeem the Preferred Stock on July 15, 2005 at a redemption price equal to 110% of its liquidation preference, plus any unpaid dividends. The Company has the option to redeem the Preferred Stock at any time at prices ranging from 50% to 110% of the original liquidation preference, plus unpaid dividends.

#### *Stock Option Plans*

The Company has stock option plans (the "Plans") under which options to purchase up to 17,240,000 shares of common stock may be granted. Under the terms of the Plans, the Company may grant options to certain employees and officers and directors of, and consultants to, the Company. The option price is equal to the fair market value on the date of the grant and each option has a term of ten years. The options vesting period is determined at the time of the stock option grant by the Stock Option Committee of the board of directors. Except with respect to the stock option exchange program described below, options granted to date generally vest at either 10% at the end of the first year, an additional 20% at the end of the second year, an additional 30% at the end of the third year and the balance vesting at the end of the fourth year from the date of the grant or vest ratably over a four-year period. The Company's 1997 stock option plan provides for 100% vesting of all outstanding options upon the occurrence of a Change in Control (as defined in the option plan). At the end of 1998, approximately 7.0 million options were outstanding under the 1997 stock option plan.

In October 1997, the Stock Option Committee of the board of directors authorized a stock option exchange program to provide employees the opportunity to exchange existing options for new options priced at fair market value on the date of exchange. Approximately 3.4 million vested and unvested outstanding options with original exercise prices ranging from \$11.19 to \$37.88 per share were canceled in exchange for the grant of the same number of new options with an exercise price of \$8.94 per share. The vesting schedule of the new options was determined based on the grant date of the canceled options. New options issued upon cancellation of options originally granted from January 1, 1994 through November 14, 1994 vest 100% on November 10, 1998. New options issued upon cancellation of options originally granted from November 15, 1994 through December 18, 1995 vest 50% on each of November 10, 1998 and November 10, 1999. New options issued upon cancellation of options originally granted after December 18, 1995, vest 33% on each of November 10, 1998, November 10, 1999 and November 10, 2000.

The Company also maintains a stock option plan for non-employee directors (the "Directors Plan") under which options to purchase up to 360,000 shares of common stock may be granted. Under the terms of the Directors Plan, the Company automatically grants to each director who is not an officer or employee of the Company, options to purchase shares having a fair market value of \$200,000 at the date of grant, each time they are elected or reelected as a director of the Company. The option price is equal to the fair market value of the stock on the date of grant and each option generally has a term of ten years. The options are exercisable at the end of one year of service from the date of grant.

In January 1998, the Company implemented a restricted stock plan (the "Restricted Plan") under which 1,000,000 units of common stock may be granted. Under the terms of the Restricted Plan, the Company may grant awards to employees, consultants or advisors of the Company and any subsidiary or person approved by the Restricted Plan Committee (comprised of at least two members of the Company's Board of Directors), excluding officers and directors of the Company. The value of each unit awarded is equal to the fair market value of the stock

on the vesting date. Units vest and are awarded to participants in equal increments annually on each of the first, second and third anniversaries of the award date. In January 1999, the Company issued an aggregate of 32,931 shares of common stock under the Restricted Plan.

The Company has publicly disclosed that the holders of its common stock (and holders of options to purchase its common stock) will retain no value under a plan of reorganization. The Company's common stock will be canceled upon plan confirmation.

ENBC has employee stock option plans under which options to purchase up to 11,813,146 shares of common stock of ENBC may be granted. ENBC also has a stock option plan for non-employee directors under which options to purchase up to 100,000 shares of common stock of ENBC may be granted. The terms of these plans are generally similar to the Company's plans, however, option grants to each director who is not an officer or employee of the Company are limited to a market value of \$50,000 at the date of grant.

In May 1998, ENBC's Stock Option Committee of the board of directors authorized a stock option exchange program to provide employees the opportunity to exchange existing options for new options priced at fair market value on the date of exchange. Approximately 2.4 million vested and unvested outstanding options with original exercise prices ranging from \$4.56 to \$33.13 per share were canceled in exchange for the grant of the same number of new options with an exercise price of \$3.65 per share. New options issued upon cancellation of options originally granted in 1995 vest 50% on each of November 11, 1999 and May 11, 2000. New options issued upon cancellation of options originally granted after 1995 vest 33-1/3% on each of November 11, 1999, May 11, 2000, and May 11, 2001.

Information on Company options outstanding and options exercisable as of December 27, 1998, is as follows:

Range of Exercise Prices	Company Options Outstanding			Company Options Exercisable	
	Weighted Average			Weighted Average	
	Remaining Contractual	Weighted Average		Exercise Price	
	No. of Options	Life (Years)	Exercise Price	No. of Options	per Share
\$ 1.00 - \$ 3.00	1,102,588	5.70	\$ 1.54	656,388	\$ 1.57
3.01 - 6.00	1,870,478	7.06	4.02	851,728	4.07
6.01 - 9.00	5,692,297	9.01	7.50	1,831,959	7.93
12.01 - 15.00	160,188	5.93	14.88	160,188	14.88
15.01 - 18.00	163,759	5.58	17.17	132,764	17.40
18.01 - 21.00	19,479	5.81	19.74	16,218	19.51
21.01 - 24.00	96,987	8.19	22.76	57,239	22.72
24.01 - 27.00	41,345	7.23	25.07	16,711	24.92
30.01 - 33.00	86,598	7.38	30.97	37,569	31.00
33.01 - 36.00	<u>30,477</u>	<u>7.42</u>	<u>35.88</u>	<u>28,653</u>	<u>35.88</u>
	<u>9,264,196</u>	<u>8.06</u>	<u>\$ 6.96</u>	<u>3,789,417</u>	<u>\$7.37</u>

Information on ENBC options outstanding and exercisable as of December 27, 1998, is as follows:

Range of Exercise Prices	ENBC Options Outstanding			ENBC Options Exercisable	
	Weighted Average			Weighted Average	
	Remaining Contractual	Weighted Average		Exercise Price	
	No. of Options	Life (Years)	Exercise Price	No. of Options	per Share

\$ 0.01 - \$ 3.00	75,000	9.93	\$ 2.00	----	\$ ----
3.01 - 6.00	3,952,369	7.16	4.25	657,129	5.65
6.01 - 9.00	691,015	3.05	6.58	276,498	6.58
9.01 - 12.00	170,453	3.43	10.83	98,377	10.89
18.01 - 21.00	2,684	8.38	18.63	2,684	18.63
27.01 - 30.00	<u>8,439</u>	<u>7.96</u>	<u>29.63</u>	<u>2,531</u>	<u>29.63</u>
	<u>4,899,960</u>	<u>6.49</u>	<u>\$ 4.82</u>	<u>1,037,219</u>	<u>\$ 6.49</u>

At the end of 1998, the Company had 35,716,053 shares of common stock reserved for issuance upon exercise of stock and conversion of convertible subordinated debentures and LYONs. See Note 5 for a discussion of the conversion of certain of the LYONs into common shares subsequent to the end of 1998.

## 8. Supplemental Consolidated Financial Statement Data

### *Accounts Receivable, net*

Accounts receivable are net of an allowance for doubtful accounts of \$807,000 in 1998. The allowances are primarily associated with loans to former employees.

### *Property and Equipment, net*

Property and Equipment consist of

(in thousands of dollars):

Land .....	\$ 82,298
Buildings and improvements .....	347,527
Furniture, fixtures, equipment and computer software .....	<u>145,182</u>
	575,007
Less: Accumulated depreciation and amortization .....	<u>(63,943)</u>
Total property and equipment, net .....	<u>\$ 511,064</u>

### *Intangible Assets, net*

Intangible Assets consist of

(in thousands of dollars):

Goodwill (1) .....	\$ 507,934
Copyrights and Trademarks .....	3,547
Recipes .....	3,046
Deferred Financing Costs .....	<u>26,171</u>
	540,698
Less: Accumulated depreciation and amortization .....	<u>(49,789)</u>

Total intangible assets, net.....	<u>\$ 490,909</u>
(1)Goodwill is composed of:	
ENBC .....	\$ 268,039
Excess cost of BCI area developers.....	239,895
Less accumulated depreciation .....	<u>(41,790)</u>
Total goodwill, net .....	<u>\$ 466,144</u>

*Accrued Expenses and Other Current Liabilities*

Accrued Expenses and Other Current Liabilities consist of

(in thousands of dollars):

Accrued payroll and fringe benefits .....	\$ 17,358
Accrued interest .....	4,619
Accrued taxes (excluding income taxes).....	13,580
Accrued vendor obligations .....	5,225
Accrued restaurant and real estate disposition costs .....	3,726
Accrued utilities .....	4,405
Accrued other.....	<u>14,454</u>
Total accrued expenses and other current liabilities.....	<u>\$ 63,367</u>

*Liabilities Subject to Compromise*

The principal categories of obligations classified as liabilities subject to compromise under reorganization proceedings are identified below. All amounts below are subject to adjustment by action of the Bankruptcy Court as the result of further developments with respect to disputed claims, determinations as to the value of any collateral underlying claims, or other events. Additional claims may arise as the result of the Company rejecting additional executory contracts or unexpired leases.

Liabilities Subject to Compromise consist of

(in thousands of dollars):

Accrued expenses (other than interest).....	\$ 57,455
Accrued interest .....	10,620
Notes payable.....	10,723
Liquid Yield Option Notes.....	209,704
Convertible Subordinated Debt.....	<u>417,020</u>
Total liabilities subject to compromise .....	<u>\$ 705,522</u>



As a result of the Company's Chapter 11 filing, no principal or interest payments will be made on any pre-petition debt without Bankruptcy Court approval or in accordance with an approved reorganization plan.

#### *Interest Expense*

Pursuant to SOP 90-7, interest expense is reported only to the extent that it will be paid during the Company's Chapter 11 proceeding or to the extent it is probable that it will be an allowed claim. In 1998, the Company did not record \$10.6 million in interest expense not paid on pre-petition debt obligations.

### **9. Related-Party Transactions**

At the end of 1998, the Company had notes payable, each in the principal amount of approximately \$1.6 million, due to Saad J. Nadhir and Scott A. Beck, both former officers and directors of the Company. The notes bear an interest rate of 9.5% which is payable quarterly. All principal and interest payments have been suspended due to the Company's Chapter 11 filing and the balances have been designated subject to compromise in the accompanying balance sheet.

At the end of 1998, ENBC had notes receivable from a stockholder of \$3.4 million, which has been entirely offset by an allowance for doubtful accounts. The notes receivable bear interest at the applicable reference rate of Bank of America National Trust and Savings Association plus 1%. Principal and interest are due April 2001. The notes are collateralized by various assets.

Certain officers and directors of ENBC are investors in Bagel Store Development Funding, L.L.C. ("Bagel Funding"), having invested \$1.7 million at the end of 1998. ENBC is the manager of Bagel Funding but has no equity interest in Bagel Funding.

### **10. Commitments and Contingencies**

#### *Commitments*

Bagel Funding has invested a total of approximately \$89.6 million, representing an approximately 22% equity interest, in Einstein/Noah Bagel Partners, L.P. ("Bagel Partners"), a majority owned subsidiary of ENBC. ENBC is the manager of Bagel Funding. Bagel Funding has the right to require Bagel Partners or ENBC to redeem Bagel Funding's equity interest in Bagel Partners at a pre-determined formula price based on store level cash flow of Bagel Partners in the event that, at any time after December 5, 1999 and prior to June 5, 2001, ENBC does not consent to a public offering of such equity interests or the termination of certain rights and obligations under franchise and license agreements between ENBC and Bagel Partners. Such right becomes exercisable prior to December 5, 1999 if there is a Change in Control (as defined in the Bagel Partners partnership agreement) of ENBC. ENBC or Bagel Partners may pay the purchase price for such equity interests in cash, shares of ENBC common stock or any combination thereof. In November 1999, ENBC announced it had engaged Donaldson, Lufkin, & Jenrette as its financial advisor to assist ENBC in analyzing and evaluating possible transactions to restructure its balance sheet.

The Company and ENBC lease sites for restaurants and for their support centers in Golden, Colorado. Lease terms generally range from five to ten years, with two or three five-year renewal options. Most of the leases contain escalation clauses and common area maintenance charges.

The following is a schedule of future minimum rental payments that are required under operating leases that have initial or remaining noncancellable lease terms in excess of one year, sublease proceeds, and guarantees and assignments at the end of 1998 (in thousands of dollars):

	<u>Minimum Rent Payments</u>	<u>Sublease Proceeds</u>	<u>Net Minimum Rent Payments</u>	<u>Guaranties and Assignments</u>
1999 .....	\$ 76,222	\$ 5,093	\$ 71,129	\$ 2,662
2000 .....	73,508	4,739	68,769	2,485
2001 .....	68,681	4,539	64,142	2,245
2002 .....	63,457	3,777	59,680	2,178

2003 .....	57,690	3,624	54,066	2,120
Thereafter .....	<u>221,886</u>	<u>11,269</u>	<u>210,617</u>	<u>13,565</u>
	<u>\$ 561,444</u>	<u>\$ 33,041</u>	<u>\$ 528,403</u>	<u>\$ 25,255</u>

The Company and ENBC have entered into agreements with certain vendors providing for minimum purchases over specified terms. The agreements call for retroactive rate adjustments or may require cash settlement in the event of purchase shortfalls. Management believes that the ultimate settlement of these commitments will not have a material impact on the Company's consolidated financial position or results of operations.

In June 1999, the Company entered into a ten year agreement with H.J. Heinz Company ("Heinz"), which grants Heinz exclusive, non-assignable rights and a license to use the Boston Market brand, domestically and internationally, in connection with manufacturing, processing, packaging and distributing packaged frozen, refrigerated and/or ambient food products approved by the Company. Heinz will pay all marketing expenses related to the products subject to the agreement. The Company will receive royalties based upon the volume of products sold, subject to a minimum royalty amount each contract year. If the Company sells non-chicken products in certain in-store locations (as defined) such as grocery and convenience stores, mass merchandising channels and non-commercial trade channels, the Company will be required to pay Heinz a percentage of net sales from such outlets or channels.

#### *Contingencies*

The Company, individual defendants Scott A. Beck, Saad J. Nadhir and Mark W. Stephens, each a former officer and director of the Company, underwriters of the Company's securities and the Company's former independent public accountants are defendants in class action lawsuits filed in the United States District Court for the District of Colorado and in state court in Jefferson County, Colorado. The complaints allege, among other things, violations of Sections 11, 12(2) and 15 of the Securities Act of 1933 (the "Securities Act"), Section 10(b) of, and Rule 10b-5 promulgated under, the Securities Exchange Act of 1934 (the "Exchange Act") and similar provisions of Colorado state statutes. The claims against the Company are subject to the automatic stay in effect in the Company's Chapter 11 proceedings and, because they are unsecured claims, the Company anticipates they will be discharged upon the Company's emergence from Chapter 11. The underwriters and the Company's former independent public accountants have each entered into separate memorandums of understanding ("MOUs") setting forth an agreement in principle with respect to the respective claims pending against them in the class action lawsuits. In addition, the individual defendants have entered into a separate MOU as to the claims pending against them.

The individual defendants' MOU provides for a bar of all claims against the individual defendants that are or could be asserted, now or in the future, by any other defendant, including the Company, related to the subject matter of the securities litigation, and a bar of any future claims that may be brought by the plaintiffs in the class action lawsuit, the class covered by the lawsuit or the other defendants in the lawsuit, including the Company, relating to the "Company or activities in connection with the purchase or sale of debt or equity securities issued by the Company or the conduct of the individual defendants as it relates thereto". The Company has indicated to the individual defendants that the Company would not agree to such a bar of future claims.

To the Company's knowledge, none of the underwriters, the Company's former independent public accountants or the individual defendants have entered into definitive settlement agreements with respect to the class action lawsuits.

ENBC and certain of its former officers and directors have settled a class action lawsuit brought against them in the United States District Court for the District of Colorado and in state court in Jefferson County, Colorado. The complaints alleged, among other things, that the defendants violated Sections 11, 12(2) and 15 of the Securities Act, Section 10(b) of the Exchange Act, and Rule 10b-5 thereunder, as well as similar provisions of Colorado state statutes. The settlement of the litigation was funded with proceeds of director and officer liability insurance policies. Final court approval of the settlement was obtained in June 1999. The settlement did not include claims pending in the lawsuit against the underwriters in ENBC's public offerings of common stock in August 1996 and November 1996 and against ENBC's independent public accountants.

ENBC has also entered into an agreement to pay \$0.6 million and to reimburse a portion of certain expenses of the underwriters in the ENBC public offerings as part of the settlement of the related litigation against the underwriters. The settlement is subject to customary conditions, including final court approval.

The Company and ENBC have become subject to other various lawsuits, claims, and other legal matters in the course of conducting its business, including its business as a franchisor. The Company and ENBC believe that the outcome of such other lawsuits, claims, and other legal matters will not have a material impact on the Company's consolidated financial position or results of operations.

The Company is currently not in compliance with the continuous disclosure rules of the Securities and Exchange Commission ("SEC") as defined by the Exchange Act. In addition, the Company's common stock currently trades in the National Quotation Bureau ("NQB") "Pink Sheets" and the Company's convertible subordinated debt securities currently trade in the NQB "Yellow Sheets". The Company has publicly disclosed that holders of the Company's capital stock will retain no value under a plan of reorganization, and the Company anticipates that holders of its convertible subordinated debt securities also will not retain any value under a plan of reorganization. The Company's equity and debt securities will be canceled upon plan confirmation.

## **11. Segment Information**

The Company operates exclusively in the food service industry within the continental United States. The Company operates in two reportable segments that are based on differences in products offered. The Company's Boston Market restaurants operate in the casual dining segment and ENBC's stores operate in the retail bagel segment. The Company evaluates the performance of its segments based on income or loss before taxes and minority interest. Assets of the casual dining segment were \$651.1 million at the end of 1998, including \$1.2 million of inter-segment receivables. The retail bagel segment had \$408.7 million of total assets at the end of 1998.

## **12. Subsequent Events (Unaudited)**

On December 1, 1999, McDonald's Corporation ("McDonald's") and the Company announced that a definitive asset purchase agreement had been signed by Golden Restaurant Operations, Inc., a wholly owned subsidiary of McDonald's ("GRO"), the Company and its Boston Market-related subsidiaries for the sale to GRO of the majority of the assets of Boston Market, including 751 restaurants, franchise rights for an additional 108 restaurants and certain related liabilities.

The senior secured creditors of the Company, subject to government and bankruptcy court approvals, have accepted GRO's bid of \$173.5 million, which will be comprised of cash and the assumption of certain liabilities. The sale will be completed as part of the plan of reorganization of the Company and its Boston Market-related subsidiaries. The Company's ownership interest in ENBC is not subject to the purchase agreement.

The Company expects to file its plan of reorganization in December 1999, and the asset purchase agreement with GRO is expected to close in mid-year 2000, although no dates have been established by the Bankruptcy Court. BCI's equity and debt securities will be canceled upon plan confirmation. Because the asset purchase agreement is subject to Bankruptcy Court approval, no adjustments have been made to the accompanying balance sheet to reflect the terms of the agreement.

ENBC, in light of amortization requirements, availability limitations under its secured revolving credit facility, and operational needs, cannot be assured that funds provided from operations and made available pursuant to its credit facility will be sufficient to meet ENBC's capital needs subsequent to the first quarter of 2000. In the event that ENBC requires additional capital to satisfy various capital needs, there can be no assurance that ENBC will be able to attain such capital on satisfactory terms, if at all, and ENBC could be forced to postpone capital expenditures or be unable to satisfy its obligations when due. In addition, if ENBC is unable to comply with any of the financial covenants under its credit facility, ENBC would not be able to draw on the revolving line of credit provided under the credit facility and, upon action of its lenders, all outstanding principal and interest under the credit facility could be accelerated and become immediately due and payable. ENBC does not currently have the capital to satisfy the outstanding balances.

ENBC's capital requirements could be significantly affected in the event Bagel Funding were to exercise its conditional right to require the redemption of its approximately 22% equity interest in Bagel Partners. In the event one or both of the conditions to the exercise of such right were satisfied and Bagel Funding exercised such right, ENBC or Bagel Partners could pay the redemption price for such equity interest by delivery of cash, common stock

of ENBC or a combination of both. ENBC does not currently have sufficient capital to satisfy the redemption price in cash. While ENBC could seek to satisfy the redemption price by delivering shares of its common stock, delivery of the number of shares required to satisfy the redemption right, based on the current trading price of ENBC's common stock, would result in a Change in Control (as defined by the indenture governing ENBC's \$125.0 million 7¼% Convertible Subordinated Debentures due June 1, 2004), pursuant to which ENBC would be required, as of 40 business days after the occurrence of the Change in Control, to purchase for cash all or any part of its outstanding debentures, at a price equal to the principal amount thereof plus accrued but unpaid interest, at the option of the debenture holder. ENBC does not have sufficient capital resources to purchase for cash any material amount of the debentures.

In November 1999, ENBC announced it had engaged Donaldson, Lufkin, & Jenrette as its financial advisor to assist in analyzing and evaluating possible transactions to restructure ENBC's balance sheet. It is highly likely that, as a result of any ENBC restructuring, the Company, as a significant stockholder of ENBC, will suffer substantial dilution of its holdings, potentially resulting in loss of control as a majority owner and de-consolidation of ENBC for reporting purposes. In the event that ENBC does not succeed in its restructuring efforts, ENBC's management believes that ENBC could be forced to postpone capital expenditures or be unable to satisfy its obligations when due.